VZCZCXRO4604
RR RUEHAG RUEHAST RUEHDA RUEHDBU RUEHDF RUEHFL RUEHIK RUEHKW RUEHLA
RUEHLN RUEHLZ RUEHROV RUEHSR RUEHVK RUEHYG
DE RUEHSF #1464/01 2921454
ZNR UUUUU ZZH
R 191454Z OCT 06
FM AMEMBASSY SOFIA
TO RUEHC/SECSTATE WASHDC 2708
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE

UNCLAS SECTION 01 OF 03 SOFIA 001464

SIPDIS

SIPDIS

E.O. 12958: N/A
TAGS: ECON ETRD KTEX BU
SUBJECT: BULGARIAN TEXTILES AND APPAREL SECTOR UPDATE

REF: SECSTATE 138090

¶1. SUMMARY The abolition of import quotas for Asian producers from 1 January 2005 has had no adverse effect on Bulgaria's textiles and apparel production and export capacity. The sector experienced an increase in new investment and technology, which supported higher labor productivity and wages. Both production and exports continued to rise, helping local producers maintain a strong position in the EU--Bulgaria's traditional export market. Nevertheless, the abolition of the quotas introduced stronger international competition to the industry, with a subsequent decrease in employment. The GOB adheres to its international commitments, including initiatives aimed at significant reduction or elimination of tariffs, but will adopt a number of strategic measures to equip local industry with effective tools against rising global competition. END SUMMARY

The information below was gathered from the Bulgarian Association of Apparel and Textile Producers and Exporters; The Association of Companies in the Light Industry and the National Statistics Institute.

¶2. Requested statistics

--Total industrial production in USD value

Total industrial production grew 7.3 percent year-on-year in ¶2005. The gross value added (GVA) of industry in 2005 was estimated at USD 7 billion. In the first half of 2006, industrial production increased 8.9 percent year-on-year; and GVA of industry was USD 4 billion.

--Indices of textiles and apparel production in USD value

Combined textiles and apparel production continued to grow in 2005 despite the removal of trade barriers on January 1. Total textiles and apparel production increased 5.3 percent in 2005. However, the index of production of textiles in December 2005 decreased to 203.8 (2000=100) compared to 205 in December 2004. The index of apparel production grew from 196 to 200.3 (December 2004/December 2005). This shows that in 2005 the industry's production growth succeeded in maintaining its production activity. In June 2006, the index of the production of textiles stood at 102.7 compared to June 2005, and 248.1 compared to June 2000. In comparison with the first half of 2005, the index of production of apparel, including leather, was 114.1 greater, and 216.4 greater compared to June 2000.

--Textiles/Apparel share of host country's imports and exports

Total imports of T and A in Bulgaria (USD 1.7 billion) contributed 10.1 percent to the total volume of imports in ¶2005. The overall imports of apparel and textiles were an

estimated USD 920 million in the first half of 2006, comprising 9.2 percent of the total imports as of the first half of 2006.

The T and A sector continued to be export-oriented in 2005. The total T and A exports (USD 2.1 billion) contributed 17.9 percent to the Bulgarian total exports in 2005. Textiles and apparel exports (USD 1.1 billion) represented 15.5 percent of Bulgaria's total exports as of the first half of ¶2006. T and A exports continued to decrease over the last two and a half years as a share to the economy total, estimated at 17.9 percent in 2005 and 21.1 percent in 2004. A total of 86 per cent of Bulgarian apparel and textiles exports is for the European Union, while the industry's total EU exports constitute a third of Bulgaria's total EU exports.

--Exports in textiles and apparel to the US

Exports to the US decreased drastically by 37 percent to USD 63 million in 2005. The negative trend has continued in 2006, and as of first half 2006 exports to the US are down by 16 percent. Presently the US is the fourth biggest textiles export market of Bulgaria, behind the EU, Turkey and Romania.

--Total manufacturing employment

Total manufacturing employment (processing industry) in 2005 was 622,757 people.

--Total apparel and textiles employment

Total apparel and textiles employment in 2005 was 177,155 people, which was 7 percent less than in 2004. The number

of employed in the production of apparel decreased by 3 percent, and by 21 percent in the textiles industry. The overall trend of employment growth in the sector over the last few years was interrupted in 2005. The decrease in employment in this sector is largely due to the rise in labor productivity and the lack of skilled people who wish to work in the sector, according to the Bulgarian Association of Apparel and Textiles Producers and Exporters (BAATPE). Competition from low-cost imports has also accelerated the process.

New investment and technology bring higher labor productivity and wages

¶3. The sector has seen an increase in new investment and technology, which boosted overall labor productivity in ¶2005. This has also led to the introduction of a more highly-skilled, leaner labor force in the industry. Wages in the sector have subsequently increased 10 percent in ¶2005. According to the National Statistics Institute (NSI), the average wage in the sector in 2005 was 205.6 Bulgarian leva (USD 134) per month. Actual wages in 2005 were probably somewhat higher due to the practice of paying additional wages in cash to avoid taxes. The expectations are for a 10 percent rise of wages in the sector in 2006.

Sales prices and volumes increase

¶4. Sales prices in the sector increased by 4.3 percent in ¶2005. The index of T and A sales on the domestic market increased from 161 (December 2004) to 215.7 (December 2005). With legal import growth declining (1 percent for textiles and 6 percent for apparel) in 2005, the share of domestic T and A producers to the sales total increased in 2005. In the first half of 2006, sales revenue from textiles and apparel, including leather, rose 10.2 percent. BAATPE

estimate that revenues from the sale of apparel and textiles will continue to rise in 2006, given also the increased number of orders from abroad.

¶5. There is no data for 2005 and 2006 showing outflow of foreign investors from the sector. This is largely explained by the competitive advantages of the Bulgarian industry and the attractive profit/expenses ratio.
Competitive edge includes:
-- Long-lasting traditions in textiles and apparel manufacturing;
-- Good quality at reasonable prices;
-- Short timetable for implementation of the orders;
-- Highly skilled workforce;
-- Proximity to Europe and major fabric producers in the Euro-Mediterranean zone;
-- No impediments to the import of raw materials.

EU restrictions on Chinese exports benefited Bulgaria . . .
-- ---------

¶6. In June 2005, a Memorandum of Understanding (MoU) between the EU and China was signed, which aimed at limiting specific categories of Chinese T and A exports to the EU considered to be the most sensitive to EU industry. According to analysis of the European Commission and the GOB, Bulgaria has since increased its exports in all 10 quota categories subject to limitations on China. During 2005, Bulgaria has increased its EU exports in value terms by 1.1% as well as its export prices, while the volume of exports has fallen by 3%. There was a 10% increase in Bulgaria's exports to the EU in value terms in the first half of 2006 as well.

. . . while US restrictions appear to have had no positive
-- -------------
effect

¶7. Evidenced by latest trade figures, US restrictions on Chinese exports, effective through 2008, have produced no positive effect on Bulgaria's total exports to the US. The exports to the US decreased both in 2005 and in the first half of 2006.

Chinese T and A maintain competitive pressure

¶8. As a result of new investment and technology policies, as well as low-paid labor, Chinese T and A producers maintain lower prices and create competitive pressure on local industry. Local producers also suffer from a lack of IPR enforcement by Chinese T and A producers and a high

incidence of pirated goods sneaking through border checks. While textiles imports from China remained within the range of 3 percent in the first half of 2006, the import of apparel rose significantly to 6.7 percent of total imports of apparel, compared to 4 percent in 2005.

GOB adheres to EU, WTO tariff reduction/elimination
-- ------ policies

¶9. Current GOB policies involve adhesion to international commitments and effective use of liberal trade mechanisms. The GOB supports the EU initiatives aiming at significant reduction or elimination of tariffs and/or non-tariff barriers in the context of bilateral negotiations or through WTO consultation mechanisms. The GOB is also involved in addressing IPR problems, rules of origin, eco-labeling, etc. Currently, the GOB, in cooperation with business associations from the sector, is creating a set of measures aimed at improving the competitiveness of the textiles and

apparel branch.

Concrete GOB action is planned

¶10. In 2005, the GOB has been involved in a joint initiative with the textiles and apparel associations in Bulgaria on the development of "The Strategy for the Development of the Textile Sector - Perspective 2010" (drafted in 2005). Some key recommendations from the strategy include:
  --Drafting and following modern requirements for quality of the products;
  --Introduction of integrated information management systems;
  --Introduction of quality management certificates (ISO 9002);
  --Participation in innovation projects;
  --Use of new methods, base products and technologies;
  --Creation and development of own trade marks and designers' collections;
  --Creation of marketing departments at the companies;
  --Development of clusters;
  --New human resources policies and training of new specialists;
  --Better communication within the sector and between the associations;
  --Increase of control of the customs authorities and the national administration with a view to stop unfair competitive practices;
  --Introduction of a flexible tax system, allowing for re-investment of the profit in new equipment;
  --Consistent trade policy and effective use of trade defense instruments.

COMMENT: The textiles and apparel industry still plays a significant role in the Bulgarian economy. For the past 5 years it has been one of the most competitive sectors in Bulgarian industry and one of the major employers in the country. Bulgaria's forthcoming EU membership increases the prospects of local T and A producers to maintain their competitive position in the EU internal market. However, the majority of smaller enterprises will be increasingly exposed to foreign competition produced by trade liberalization and low-cost imports from China. Only those companies that incorporate high-technology equipment will survive. The sector will become more capital intensive, and further lay-offs are foreseen.
BEYRLE